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C O N F I D E N T I A L SECTION 01 OF 04 TOKYO 006484

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TREASURY PASS TO CATHERINE DOWNARD, VICKI ALVO

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TAGS: [KNNP](#) [PARM](#) [PINS](#) [JA](#) [CH](#) [KS](#) [IZ](#)

SUBJECT: TREASURY DEPUTY SECRETARY KIMMITT'S TOKYO MEETINGS  
WITH BANKERS, MOF VM, AND BOJ GOVERNOR FUKUI

REF: 184738

Classified By: J.Thomas Schieffer for reasons 1.4 (b/d)

¶1. (C) Summary. Deputy Secretary of Treasury Robert Kimmitt met on November 7 with senior representatives of Japan, s three mega-banks, had lunch with Ministry of Finance (MOF) Vice Minister for International Affairs Hiroshi Watanabe, and met with Bank of Japan (BOJ) Governor Toshihiko Fukui. Deputy Secretary Kimmitt used these meetings to highlight the importance of the International Compact with Iraq, to discuss measures to keep global financial markets safe, sound, and secure, to discuss the climate for foreign direct investment in the United States, and the US economic outlook. Meetings with Foreign Minister Aso and Finance Minister Omi reported septel. End Summary.

Bankers on Financial Measures against  
Terrorism and Proliferation  
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¶2. (C) Deputy Treasury Secretary Kimmitt met with senior representatives of Japan, s three mega-banks November 7 to discuss the climate for foreign direct investment in the United States, and financial measures taken by the United States against illegal conduct by Iranian and DPRK entities. Japanese participants at the meeting were, from Bank of Tokyo-Mitsubishi UFJ, Ltd Norimichi Kanari, Deputy President and Group CEO of Global Banking and Akira Kamiya, Executive Officer and General Manager, Global Planning Division; from Sumitomo Mitsui Banking Corporation, Shutaro Higashi, Senior Managing Director and Head of the International Banking Unit, Treasury Unit and Asia-Pacific Division and Hiroshi Ozaki, Senior Vice President, International Banking Unit; and from Mizuho Corporate Bank, Tsunehiro Nakayama, Deputy President and Yutaka Endo, Executive Officer and General Manager, International Coordination Division.

¶3. (C) Deputy Secretary Kimmitt described the climate for foreign direct investment in the United States, noting that while there had been a few recent high-profile cases like the CNOOC and Dubai Ports World deals that had not been approved, about 98 percent of foreign direct investment deals that are considered by the Committee on Foreign Investment in the United States are approved. He explained that the U.S. government believes strongly in the benefits of foreign investment to the U.S. economy and wants to maintain an open investment climate.

¶4. (C) Turning to Iran, the Deputy Secretary made a

distinction between sanctions, which are political actions taken at the United Nations or through other political authorities, and financial measures, which are enforcement actions taken by the Treasury Department under U.S. laws. He explained that financial measures are taken to keep the banking system safe, sound and secure and that they focus on illegal conduct, not on countries. He noted that the USG is careful not to apply financial measures extraterritorially. Kimmitt explained that the USG had taken financial measures against Iran,s Bank Saderat, which has been a primary vehicle for Iranian government payments to Hezbollah. He cautioned that due to the Iranian government,s use of deceit, denial, and front companies, financial institutions must be very careful in their dealings with Iranian companies and financial institutions, as it is almost impossible to "know your customer". He explained that Treasury is trying to provide as much information to the GOJ as possible for them to share with financial institutions to help them make sound business decisions and assess risks in doing business with Iran.

15. (C) Turning to the DPRK, Kimmitt explained that there are links between the Iranian and DPRK nuclear programs. However, in the case of the DPRK, there are multilateral political sanctions, in addition to financial measures that the USG has taken against Banco Delta Asia, with strong evidence of laundering of counterfeit US currency, and links to cigarette smuggling and weapons proliferation. He went on to say that as financial measures are U.S. law enforcement actions they are not subject to political discussions and will not therefore be a matter of multilateral discussion for the Six Party Talks. However, Treasury remains willing to discuss in a separate but related bilateral channel the basis for our financial

TOKYO 00006484 002 OF 004

measures and ways that the DPRK could rejoin the international financial community.

16. (C) The bankers asked questions about financing of legitimate oil imports, and about U.S. processes for implementing financial measures. Kimmitt said that financing for oil imports is still ongoing through other Iranian banks, though they are being closely monitored, and that some dollar-denominated transactions are shifting to euros or yen to avoid the need for access to the U.S. financial system.

17. (C) Turning to USG efforts to coordinate with other governments to maintain a safe, sound, and secure global financial system, Kimmitt explained that the U.S. values international fora such as the Financial Action Task Force (FATF). He acknowledged that some reporting requirements are difficult and costly for banks, and encouraged private sector feedback on ways to be more efficient in asking for the right information in a less burdensome way. Kimmitt explained that the first preference is to act in a multilateral setting, such as the UN, G-8, or FATF, however the USG still has to undertake law enforcement responsibilities under our own laws. In those cases, Treasury explains our actions to our Asian and European colleagues and shares information with appropriate law enforcement and regulatory authorities.

MOF Vice Minister Watanabe  
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18. (C) During a lunch meeting, Deputy Secretary Kimmitt and MOF Vice Minister Watanabe exchanged views on a wide range of topics, including the Iraq Compact, financial measures against illegal conduct by Iranian and DPRK entities, and a brief exchange on the topics for the upcoming G-20 Finance Ministers Meeting in Australia. Regarding the Iraq Compact, Deputy Secretary Kimmitt explained that he was hoping to encourage all major creditors of Iraq that hadnot already done so to commit to

at least 80 percent debt relief in the Paris Club and for countries that had already forgiven 80 percent of Iraq's debt, such as Japan, to consider forgiving 100 percent, as the USG is prepared to do. Kimmitt clarified that Iraq would need additional financial assistance over the next 5 years beyond debt relief and the Madrid pledges of assistance. Vice Minister Watanabe agreed that it was important to get other donors to commit to 80 percent debt relief in the Paris Club. He explained that it would be difficult at this juncture for Japan to commit additional resources to Iraq, given Japan's difficult fiscal situation and the fact that a portion of Japanese aid already contributed to the IRFFI remained undisbursed and that nearly \$3.5 billion in soft loans committed by the GOJ has not been committed due to lack of an Iraqi signatory for the loans.

¶9. (C) Regarding financial measures against illegal conduct by Iranian and DPRK entities, Deputy Secretary Kimmitt explained the basis for actions taken by Treasury and made the distinction between financial measures taken under U.S. laws against illegal conduct and political sanctions against countries. He talked about Treasury's willingness to hold bilateral discussions with DPRK authorities about U.S. financial measures against Banco Delta Asia, but specified that would be a separate process from the Six Party Talks and that U.S. law enforcement measures are not negotiable. Watanabe agreed that it was very important for these distinctions to be maintained, and noted the importance of unity in the positions of the non-DPRK members of the Six Party Talks.

BOJ Governor Fukui  
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¶10. (C) Governor Fukui began the meeting by asking Deputy Secretary Kimmitt about the prospects for the U.S. economy. Kimmitt described recent economic performance, explaining that growth is moderating but near and medium term prospects for economic performance are good. However, there is much to be concerned about in the long-term, including the U.S. savings rate, trade deficit, and funding for entitlements programs. While none of these issues is a crisis now, if they are not addressed, these problems could be a concern that starts to affect public confidence in the short-term. Kimmitt

TOKYO 00006484 003 OF 004

highlighted the importance of G-7 and G-20 work on global imbalances, noting the importance of structural reform and domestic-demand-led growth in Japan and Europe, continued reform and additional exchange rate flexibility in China, and the need for emerging actors in the global economy, such as Brazil and China, to play by the rules of the road

¶11. (C) Kimmitt asked Fukui's views on Prime Minister Abe's pro-growth strategy, inflation, and how Japan could spur domestic-demand-led growth. Fukui opined that the long expansion of the Japanese economy could not have happened without structural reform, however, after 5 years of intensive reform efforts, a backlash against reform is emerging. The public is clamoring against income inequalities and this is an increasing problem on the political front. Japan needs to elevate its potential growth rate to deal with two obstacles: the aging population and the need for fiscal consolidation. Fukui noted that the BOJ had ended the quantitative easing policy in March 2006 and implemented a new forward-looking monetary policy framework. He stated that the BOJ has a medium- to long-term understanding of price stability, and that BOJ wants to retain more flexibility than an inflation targeting regime would allow. In his view, BOJ's stance is consistent with the government's long-term growth plans. Kimmitt asked if BOJ could foster non-inflationary growth, but promote consumer demand at the same time. Fukui reiterated that Japan needs to raise its potential growth

rate from the current 1.5-2 percent, and that the Abe government plans to increase potential growth to 2.2 percent through promoting innovation. Fukui added some view BOJ,s 0-2 percent range for inflation as too low, but noted that inflation in Japan has traditionally been very low, with the CPI averaging 0.6 percent over the past 20 years and 1.0-1.2 percent, excluding the deflationary years. Kimmitt reiterated that domestic demand led growth in Japan will be very important for global adjustments and for the U.S. economy.

¶12. (C) Turning to China, Fukui opined that the Chinese economy needs more efficient use of resources and market mechanisms, and that a more flexible exchange rate is not sufficient. Kimmitt agreed that our dialogue with China must go beyond the exchange rate and that more needs to be done in market liberalization, state-owned enterprise reform and decreasing barriers to foreign direct investment. He added that part of the reason the Unocal-CNOOC deal was blocked by Congress was because it was investment proposed by a state-owned company in a sector that is closed to foreign investment in China. With the global economy and Chinese economy performing well, China should take additional reform steps now.

¶13. (C) Fukui expressed concern that it is difficult to predict how the Chinese economy will develop, due to lack of good information to make simulations. Kimmitt agreed, saying that Treasury hopes to learn more about the Chinese economy through the Strategic Economic Dialogue, which will involve a wide range of actors and elevate the discussions.

¶14. (C) Kimmitt then turned to the issue of keeping global financial markets safe, sound, and secure. He told Fukui about his meeting with bankers where he had drawn the difference between financial measures and sanctions. Kimmitt explained that the USG wants to work closely with our Japanese and European partners to be sure the global financial system cannot be used for illegal purposes. Fukui agreed and said that he is sensitive to the problem. He stated that the Financial Services Agency is mostly in charge of these issues, but that BOJ does act a bit in this area. Director-General of the International Department Idesawa explained that BOJ acts as MOF,s agent in monitoring dubious transactions. He expressed regret that while BOJ cooperates in that job, they are not kept well informed on discussions between our two governments. Kimmitt stressed the importance of effective multilateral networks, and the hope that information that is shared with the GOJ would be disseminated so that all parties have the information to act.

¶15. (C) Explaining that his trip to Japan was also focused on the Iraq Compact, Kimmitt described economic progress in Iraq and the timeline for the Compact. He asked Fukui to consider what could be done to develop or enhance BOJ,s relations with the Central Bank of Iraq

TOKYO 00006484 004 OF 004

(CBI). He noted that while Iraq has a stable currency and sizable reserves, there are inflationary pressures and the credit markets are very immature. He advised that interaction with major central banks could be very beneficial for CBI. Fukui noted that while BOJ has TA programs with some emerging market central banks, they do not yet have one with Iraq. Kimmitt suggested that BOJ might think about outreach to CBI through the Japanese Ambassador in Iraq, and said he would mention this conversation to CBI Governor Shabibi.  
SCHIEFFER